14 May 1984

MEMORANDUM FOR THE RECORD

SUBJECT: Senior Interdepartmental Group on International Economic Policy Meeting -- 14 May 1984

Treasury Secretary Regan stated that he had called the meeting of the SIG-IEP to reaffirm the group's commitment to the current five-point LDC debt strategy or, if appropriate, to discuss dissenting views. The Secretary expressed his concern that the US position on our debt strategy could be misrepresented in various forums before the June Economic Summit; LDC debt would be discussed during the next week with President de la Madrid in Washington, at the OECD meeting in Paris, and the G-10 Finance Ministers meeting in Rome. Secretary Regan commented that discussion of any change in strategy would be more appropriate after the Summit when it could take into account our Allies' positions.

Assistant Secretary Mulford reviewed the five-point strategy and made the following points:

- The LDC debt issue is complex and slow to show progress, and there is a growing feeling of concern and frustration. The natural tendency of many is to look for simple and universal solutions.

- The LDC debt problem will take time. LDC debtors are at different stages in their paths toward adjustment, with Mexico the farthest along and Venezuela still unwilling to sign an IMF agreement.

- There is incredible financial, economic, and political diversity among the debtors; across-the-board solutions, including interest capitalization, are not realistic.

- The nature of the debt negotiation process involves all players "probing for acceptable limits." The IMF is probing to discover how flexible it should be, while bank committees are probing the limits of syndicate members in lining up new money.

- Alternate debt strategy proposals currently being discussed in an "offhand" manner are affecting ongoing negotiations and are damaging to the momentum of the US strategy.

NIO/Economics agreed that individual debtor situations were diverse but that there was a growing impatience with austerity and pressure building for reinflation and public deficit spending. While foreign exchange constraints are easing, effective domestic demand is depressed within these economies with little hope for revitalization without resumption of government spending. NIO/Economics expressed concern about the health of LDC private sectors and their ability to spur economic growth.

The Department of Defense representative commented that he believed more fundamental structural adjustments needed to be undertaken, including the sale of unprofitable parastatals. He would like to see the World Bank and IMF work more closely together to implement these more difficult adjustments. He also asked the group not to forget the smaller debtors, such as Sudan and Costa Rica, which are important to US interests.

Department of State representative agreed with Secretary Regan's position of sticking with the five-point strategy and commented that any change would have considerable repercussions and pose innumerable problems.

Commerce Under Secretary Olmer affirmed the Commerce Department's commitment to the five-point strategy but did not consider it a long-term one. His agency's micro analysis on trade and investment in Latin America highlights concern that export growth and investment will not be sufficient to stimulate economic recovery and provide jobs for the rapidly expanding labor forces. The Under Secretary called for a post-Summit interagency study on the ability of each country to sustain the current program.

Mr. Regan agreed to consider the request and asked Mr. Olmer to forward a proposed outline to Mr. Mulford.

Roger Robinson of the NSC asked for an interagency post-Summit study exploring "refinements" of the current strategy to ensure it remains functional. Mr. Frankel of CEA also was in favor of such a study which he believed could include study of trade financing alternatives, interest payments, and IMF criteria.

Mr. Mulford commented that a group at Treasury was in place looking at such alternatives to ensure proposals were considered. He would welcome interagency participation in this effort.

Secretary Regan expects debtor opposition to mount against rising US interest rates but is not hopeful rates will decline over the next year and a half and may even rise to 14 percent. He also expressed some concern that rising interest rates could add fuel to current G-77 attempts to revitalize UNCTAD.

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